

Principles for Peak Grantmaking Action Planner

Strategies to Steward Responsively

To transform the practice of philanthropy into the practice of principled grantmaking, we worked with our members to develop five Principles for Peak Grantmaking—Tie Practices to Values; Narrow the Power Gap; Drive Equity; Steward Responsively; and Learn, Share, Evolve. Learn more at peakgrantmaking.org/principles.

Steward Responsively

PEAK Grantmaking calls on grantmakers to reframe risk and to recalibrate their vetting process to make it more transparent, more trust-based, more nonprofit- and community-centered, and less burdensome.

Strategies to Steward Responsively

What does it mean to be a responsive steward of your grantmaking process?

In the philanthropic sector, funders and nonprofits spend a significant amount of time and energy stewarding funds and resources. The vetting process is essential for funders, one that funders design and control from start to finish. Some funders mistakenly approach this process as a gatekeeper, and use the process to limit (or keep within limits) who can receive funding, often selecting those nonprofits that are perceived as less risky because they have long histories, more robust funding and finances, or well-known executive leaders and trustees. Nonprofit staff often report that funders' vetting processes and goals are opaque and rarely explained. The result is a potential grantee with concerns that they may be passed over for a grant despite their alignment with a funder's stated mission and priorities.

What do we mean by *steward*?

When funders think about the word *steward* or *stewardship*, often what comes to mind is the job of supervising or taking care of something, such as an organization or property, including financial assets. When a nonprofit's staff discusses the act of stewarding, it is almost always centered on the relationships that must be nurtured and maintained with funders to ensure continued financial support for the organization's mission and community.

This imbalance needs to be addressed. PEAK Grantmaking encourages each of you to examine how equitable your external relationships are with your nonprofit partners in addition to your internal staff relationships. Stewarding relationships and building trust among partners isn't just for grants management professionals or program staff. Funding institutions as a whole must operationalize equity internally in order to effectively implement equity-centered grantmaking programs with their communities. Narrowing the power gap and stewarding responsively will result in positive change for the issues philanthropy seeks to advance.

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We intentionally use the term *responsively*.

In philanthropy, a *responsible* steward focuses on protecting the funder's financial assets and reputation. A *responsive* steward, however, is going to manage the process with the needs of the community and each nonprofit at the forefront and have a level of flexibility in their approach. Communication, transparency, and adaptive practices are within the funder's control. And technology can be an effective tool in moving toward more flexible and equitable practices. Shifting focus to responsive stewardship is a call to action for funders to center the needs of the communities and nonprofits they aim to serve and to design grant lifecycle processes with adaptability in mind.

Our Steward Responsively Principle, in Brief

PEAK Grantmaking calls on grantmakers to reframe risk and to recalibrate their vetting process to make it more transparent, more trust-based, more nonprofit- and community-centered, and less burdensome.

Responsible stewardship is a hallmark of effective grantmaking practices, contributing to public confidence and increasing grantmaking impact. Responsive stewardship means identifying and managing risks, rather than avoiding them. This involves anticipating and adapting to change of all kinds, sharing grantmaking information openly, using technology and data effectively, and serving as facilitators of the grantmaking process rather than guards of the assets.

Grants professionals can connect the dots among knowledge, systems, and relationships to assess and manage risk, seeking creative solutions to remove barriers to impact.

Grants professionals and leaders must have serious conversations about what it means to be responsive, take risks, and understand the context in which their grantees work.

Here are a few key questions to consider:

- How can you embrace risk and innovation in your grantmaking practice?
- How can you be a more open, accessible, and transparent grantmaker?
- How can you most effectively use technology to support your grantmaking process?

Three Action Steps

Being a change agent for responsive stewardship requires you to take three actions: reframe risk and rightsize your vetting process, recalibrate how you assess financials, and use technology to elevate equity and efficiency.

Reframe Risk and Rightsize Your Vetting Process

There are no bad grants. However, the desires of the funder and the capacity of the nonprofit can change over time.

Grants management and finance staff—alongside their program counterparts—have an amazing opportunity to shift what is perceived as a risky investment. *Perceived* is an important word to consider because what is seen as a risk is often not necessarily backed by facts. Rather, results from a single point of data or perspective about the capacity of an organization to execute on the funder's intentions inform one's perception of risk. **Bias shows up**, which can result in many funders often returning to the same or similar nonprofits over time: those with executives and trustees they know, predictable financial statements, and established reputations. We love those organizations, but we also often see and hear the stories of new, grassroots, or rural institutions—trusted by and doing great work in communities—getting overlooked.

Understanding that a funder will invest in new nonprofits and new bodies of work, it is within the power of each funder to prioritize building a relationship with each grantee as a means of managing concerns about the organization's "fitness" for funding. The funder defines what is risky and should seek to establish

foundation-wide alignment on what areas might warrant concerns. The funder should then seek to define how those concerns will be shared and finally seek to mitigate any issues. It's your playbook, but those outside your organization need to have a concrete sense of how to play by it.

Embedded in a funder's annual planning process is the opportunity to examine eligibility requirements for its various funding opportunities and the process by which organizations apply for funding. Those requirements and processes are wholly within a funder's control. Funders also have the opportunity to clearly communicate any expectations for financial or operational capacity required for a successful grant proposal.

"It's your playbook, but those outside your organization need to have a concrete sense of how to play by it."

Funders can better manage risks associated with making a grant and—when red flags arise during the vetting process—use those moments as an opportunity to engage the nonprofit and discern if there are additional or different resources needed to support their capacity, programs, or operations. Programmatic and capacity-building grants are essential support for nonprofits, but despite what feels to be a trend in more flexible funding, the majority of funds received by all types of institutions—grassroots, nonprofits, or universities—is restricted for purpose and/or time. This type of funding offers little opportunity for an organization to identify and fill its operational, communications, or staff development gaps.

Three Action Steps

Thankfully, a grant is but one of many resources at a funder's disposal to support a nonprofit. Funders should consider that the vetting process offers an opportunity for them to learn more about the overall health of the nonprofits they might support and the needs of the communities they fund. When there is alignment between the missions of the two parties, but a grant will not be awarded, the funder should seek to support the nonprofit by way of other means including as a thought partner, through volunteer engagement, or by connecting them to other potential funders.

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When seeking to manage risk while serving as the facilitator for better transparency and feedback loops, consider these prompts:

- Who defines risk in a funding relationship? Is there alignment on what risk means?
- What's at stake if there are shifts during the grant lifecycle that might affect the nonprofit's approach to or capacity to support the funded program?
- Have we communicated our vetting process clearly and openly? Do we have a mechanism to collect and respond to feedback from nonprofit organizations on our processes?
- Have we offered assistance to ensure the nonprofit is “grant ready”?

Recalibrate How You Assess Financials

Supporting nonprofits while centering equity, flexibility, and responsiveness is a delicate balancing act. Given that the vetting process is completely within a funder's control and that the legal requirements a nonprofit must meet are unrelated to its financial position, it is possible for a funder to take a step back from current practices and chart a new way forward.

There are a number of financial statements and other pieces of financial information a funder can request during an application process to better understand a nonprofit's financial position. As we have previously recommended, it is critical for a funder to regularly assess many data points during its application process to identify what information is truly necessary to make funding decisions and what information is merely nice to have. And those financial requirements should be placed in the context of the type of grant (programmatic, general operating support, capacity-building, capital, etc.), the anticipated size of the award, and the organizational age and size of the applicant. For example, is it necessary to ask small organizations with budgets under \$200,000 for audited financial statements when they're requesting a \$5,000 programmatic grant? Or is it necessary for a grantee that is seeking to renew a general operating support grant to provide you with three years of financial statements when they already provided two years of documentation in the previous application? And should you request audited financials and IRS Form 990s, or will one form of documentation suffice?

Three Action Steps

“There is no one-size-fits-all model for financial viability. However, there are markers for sound financial planning and health.”

While nonprofit organizations do not operate with the sole purpose of generating income, they must strive to be financially healthy and be accountable to the communities they serve and their funders. But what does that actually look like? There is no one-size-fits-all model for financial viability. However, there are markers for sound financial planning and health including

- bringing in sufficient revenue to cover the true cost of doing business;
- having access to flexible funding as opposed to restricted revenue;
- setting aside reserve funds to allow the organization to both innovate and weather challenging times; and
- allocating sufficient funds to support staff by way of, for example, salaries, benefits, and professional development.

“If there are concerns that the investment may pose risks, determine whether the risks are real or perceived, and identify how you can help the organization mitigate those risks.”

Despite the fact that many nonprofits strive to achieve financial health and stability, the limited flexible funding many have access to inhibits them from reaching the desired state. Recent research has proven that Black-, Indigenous-, and people-of-color-led organizations do not have access to the same financial capital as white-led organizations. When assessing a nonprofit's

financials as part of the due diligence—or vetting—process, funders should seek to learn the story behind the applicant's numbers rather than declining an applicant because their finances raise questions. If there are concerns that the investment may pose risks, determine whether the risks are real or perceived, and identify how you can help the organization mitigate those risks.

When assessing a nonprofit's financials, be sure to ask these questions:

- What story do the organization's financials tell us?
- Does the budget—either for the organization or for a specific program—reflect the true and complete cost of doing business?
- How much flexible capital does the organization have access to? How much is donor-restricted?
- Are we requesting financial statements that we do not use in our decision-making process?

The term *due diligence* is widely used in reference to a funder's thorough review of a nonprofit, conducted to determine whether there is alignment between the two organizations to ultimately make a funding decision. As terms like due diligence, compliance, and oversight have negative connotations and may be triggering for some, PEAK uses the term *vetting* for this wraparound process that—when rooted in equity and the spirit of true partnership—offers a funder valuable insight into an organization's mission, values, financial position, leadership, and the effectiveness of its programs.

Three Action Steps

Leverage Technology to Drive Equity and Efficiency

Here's another reminder: Adapting the vetting process is *within the funder's control*. And whether your institution has a staff of zero, a few, or hundreds, there are always more things to do to meet your organization's annual funding and partnership targets than there are time and resources. People do the hard work, but the effective use of technology applications—from the most rudimentary to the most sophisticated grants management systems—can and should be deployed to support data collection and close knowledge gaps about potential grantees. In today's world, numerous technology applications and tools are available to support effective grantmaking practices that are transparent, allow funds to be seamlessly moved to communities, and provide grantees a vehicle to share and hear feedback. In short, the strategic use of technology fosters a relationship that goes beyond the transaction. It's a true partnership.

Being a responsive steward includes keeping up with budget allocations, commitments, responding to nonprofit inquiries, and tracking post-award progress and impacts—and that's only a slice of the responsibilities grantmaking professionals, including grants management and program staff, hold. Using technology effectively can not only improve operational efficiency, but it can also elevate equity. How? Accessible and saveable applications. Dynamic FAQs. Holding office hours via Zoom. Grant budget tracking. Automated grant lifecycle communications. (Consider, for example, "Thank you for your application. We are reviewing it and will respond regarding next steps within 10 business days.") Adaptable workflows and processes. Flexible software. Data management systems and tools.

Transparency and clear communication are hallmarks to building trusting, equity-centered partnerships. And, please, no duplicative processes. Consider this your call to action to use publicly available data sources like Candid and organization websites, especially to find financials, mission and strategy statements, staff and board composition data, and issue areas.

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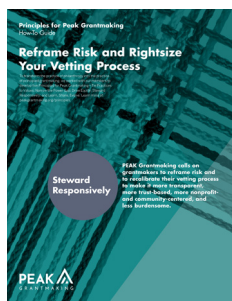
But don't stop once you have a great set of tools in place and working! Funders should seek to stay nimble and open to rightsizing overall processes on a regular basis, acting on feedback received from staff and nonprofits and doing what is needed to further improve the next cycle of funding. We encourage all funders to keep community and nonprofit needs centered as you design processes and deploy technology to support your grantmaking. Efficiency can be accelerated by using technology well, which translates to more equitable, effective grant practices.

Whether you are far along your technology journey or are just starting, here are some prompts to consider as you seek continuous improvement in your processes and equity practices:

- Have we created processes that can be adaptable to the nonprofit's capacity and the grant size?
- How flexible are our grants management technology and tools?
- Are we collecting data solely used for decision-making? Are we using publicly available data where possible?

PEAK Resources to Support You

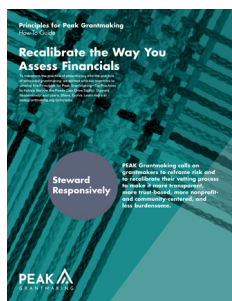
PEAK has developed and curated a collection of resources, including a series of how-to guides, exclusive to our Organization and Consultant Members, that take a deeper dive into these action steps. Visit our [Steward Responsively landing page](#) to view them all, and log in to peakgrantmaking.org to download the three guides.



Reframe Risk and Rightsize Your Vetting Process

This how-to guide is designed to help you reframe and manage risk by embedding equitable and efficient grantmaking practices into your vetting process and investing in your grantees' infrastructure. Assessing, tracking, and mitigating risk is tied

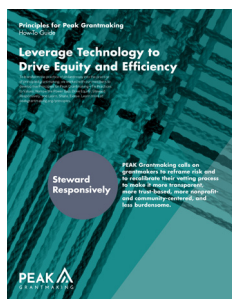
to many components of the grantmaking lifecycle. When situations traditionally associated with risk are found, work with the nonprofit to understand the context to develop a plan to support them.



Recalibrate the Way You Assess Financials

This how-to guide combines financial field experience with an equity framework to outline a methodology for assessing nonprofit financial resilience through a responsive lens. While we recognize the value of traditional vetting processes, we

challenge funders to consider a more agile approach to assessing potential risks.



Leverage Technology To Drive Equity and Efficiency

This how-to guide is designed to help funders surface how technology and robust data management practices can help reframe risk, resulting in more responsive and flexible practices that center both equity and the grantee.

In addition, explore our growing collection of articles focused on the Steward Responsively Principle in the [Insights section of our website](#). Here are a few of our recommendations:

- **“The Myth of Risk: How to make good on the promise of ‘big bets’ in philanthropy”** by Satonya Fair, PEAK Grantmaking
- **“The Myth of Risk: Fear not the dragons, funders”** by Satonya Fair, PEAK Grantmaking
- **“Staying on Track in an Unpredictable World: Three ways to plan and manage future risks to impact”** by Aaron Kotler, Open Road Alliance
- **“A Little Due Diligence Goes a Long Way to Avoid Triggering Taxable Expenditures”** by Josh Abel, Nina Mason Pulliam Charitable Trust
- **“Tax Code Details That Have a Big Impact on How You Evaluate Grant Proposals”** by Josh Abel, Nina Mason Pulliam Charitable Trust

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PEAK Grantmaking is a national nonprofit organization whose mission is to transform philanthropy by elevating the field of grants management and empowering grants professionals to lead the way in operationalizing equity-centered, values-driven grantmaking practices. To learn more about PEAK and its vibrant community of members who come together as emergent learners to drive change, visit peakgrantmaking.org.